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SIPDIS

SENSITIVE

USTR FOR SCRININ, KLEZNY

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SUBJECT: ADVISOR DENIES AMORIM PROPOSING FTAA DELAY

REF: BRASILIA 306

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11. (SBU) Summary. According to Antonio Simoes, Economic Advisor to Foreign Minister Amorim, local press inaccurately reported Amorim's April 23 remarks to the Brazilian Chamber of Deputies concerning the GoB's alleged intent to delay FTAA negotiations. Simoes stressed to us that the GoB wants to continue negotiating with the United States within the FTAA; that it is not seeking an extension of the end of 2004 deadline for negotiations; but that the GoB can be expected to raise the possibility of limited four plus one negotiations as a politically important supplement to the FTAA, during USTR Zoellick's trip to Brasilia May 27-28. End Summary.

12. (SBU) In an April 23 telcon, Antonio Simoes, Economic Advisor to Foreign Minister Amorim, alerted EconOff that Amorim had made remarks earlier that day to the Chamber of Deputies which would have implications for the impending visit by USTR Zoellick. The next day, four major dailies ran articles reporting on Amorim's remarks. While each was slightly different in detail, the central message conveyed was that Brazil wanted to slow down the FTAA negotiations and seek an extension of the January 2005 deadline for completion. Headlines included "Brazil Going to Delay the FTAA" and the "Chancellor Disagrees with the U.S. on the FTAA." In response to questions about public remarks here on April 22 by Treasury Secretary Snow concerning the U.S. position vis--vis negotiation of agricultural domestic support disciplines within the FTAA, Amorim's response generated a headline "Amorim Warns Against the Siren's Song of The FTAA."

13. (SBU) Simoes assured EconOff early April 24 that the press reports were incomplete and inaccurate. Simoes insisted that the GoB is not seeking to delay the FTAA negotiations and/or to extend the deadline. He explained that Amorim had simply said that immediately after taking office, President Lula had slowed down the negotiating pace in order for his new government to have time to conduct an evaluation of the negotiations -- not that this is the plan for the future. Furthermore, Amorim's remarks concerning the negotiation calendar, according to Simoes, referred solely to the timeframe for submission of offers, which the GoB felt had been too tight and needed to be extended; Amorim was not referring to the end date for negotiations.

14. (SBU) According to Simoes, Amorim did not want to criticize Secretary Snow, but had to respond to questions raised by Deputies based on press reports that the Secretary had not only reiterated the USG position that "everything is on the table" but had in addition specifically asserted that the United States is willing to discuss reductions in domestic farm support within the FTAA. Simoes said that Amorim knew the press reports were an inaccurate reflection of the U.S. position and needed to convey that to the Deputies. This led to the Minister's warning not to be lured by the sirens' song of "everything is on the table" and to his criticism that Secretary Snow's declaration had "little substance" and "low credibility." The Minister reportedly reassured Deputies that what matters is how the revised U.S. offer in July treats products of interest to Brazil.

15. (SBU) Simoes wanted to draw our attention to Amorim's remarks that the GoB is studying the possibility of negotiating a more limited U.S.-Mercosul (or four-plus-one) trade agreement and that we should expect Amorim to raise this with USTR Zoellick during their discussions in late May. Although qualifying that this is but one possibility that the GoB is exploring, Simoes opined that Zoellick should be in a position to respond to such an idea during the May talks. He stressed that the GoB would not envision this negotiation supplanting the FTAA, but rather as supplementing it. GoB thinking, according to Simoes, is that success in negotiating a more limited agreement with the United States would divert domestic attention from the FTAA, reduce the negative pressure associated with the FTAA, and provide the GoB with political space it needs to move forward on those negotiations. (COMMENT: The Lula team has been kicking the idea of a U.S.-Mercosul agreement around since as early as

last October, but has yet to act formally on it or provide details. EconOff noted to Simoes that it may be difficult to obtain a substantive response lacking a more definitive description of what is envisioned. END COMMENT.)

16. (SBU) To provide context, Simoes described the GoB's difficult political situation regarding the FTAA. First, groups that have promoted the negative perception surrounding the FTAA are, in the current administration, in positions to wield more political clout. Simoes declined to identify individuals, but Samuel Pinheiro Guimaraes, the Secretary General within Itamaraty, is certainly in this camp. Second, those trying to promote the FTAA negotiations within and outside the administration find little that they can definitively point to as a "win" for Brazil to counter FTAA opponents' claims that the FTAA is designed to benefit only the United States. The well-known analysis goes like this: the current framework for negotiations includes the areas of interest to the United States -- services, investment, government procurement, intellectual property rights, to name some -- but, Brazil has been unable to include the issues of interest to it, namely disciplines on agricultural domestic support, and trade remedies.

17. (SBU) Making things still worse, according to Simoes, the United States presented initial market access offers for goods which not only provide Mercosul with the worst tariff liberalization schedule, but, within that schedule, have their main products of interest in Basket D, the group with an as yet undefined timeline for tariff elimination. The United States' differentiated offers have contributed to a hardening of anti-FTAA sentiment among those opposing Brazil's participation in the negotiations.

18. (SBU) Simoes also noted that local press omitted to report on the severe criticism that Amorim received from a group of radical PT Deputies, led by Luciana Genro (Rio Grande do Sul), who attacked the government for continuing to negotiate the FTAA when 10 million Brazilians had already voted against it in a plebiscite last fall. This same group of PT ideologues claimed to be forming a "parliamentary front" to push for a nation-wide referendum on continuing with FTAA negotiations. As relayed by Simoes, Amorim stood up to these deputies, unequivocally arguing that it is in Brazil's interests to negotiate the FTAA and that the government would continue that course.

19. (SBU) Concerns similar to Simoes' regarding the political landscape for FTAA negotiations, were expressed by Brazil's new lead FTAA negotiator, Ambassador Carlos Simas Magalhaes, during a meeting with visiting Congressman English and his delegation later the same day. At the outset of that meeting, Simas catalogued the usual litany of technical problems facing Brazil -- a new administration with a new team that has had the huge task of reevaluating in technical terms each area of the negotiations; the particular difficulties posed by investment and government procurement, since Brazil's specialists have never negotiated market access in these areas previously; and so on.

110. (SBU) By the end of the meeting, however, Simas suggested that technical difficulties can be overcome and that in the current Brazilian environment the main obstacles to the FTAA are mainly political. He reminded the Congressman that the Lula government is leftist and has different sensitivities than the previous administration. Echoing Simoes' concern over the negative political impact of what has been widely seen as inadequate U.S. offers, Simas wondered aloud why the United States could not have allowed other countries benefiting from preference programs or bilateral trade agreements to merely continue with those preferences during the FTAA transition period, while putting forward a single FTAA offer and saving Mercosul, and especially Brazil, from these political difficulties. Simas, like Simoes, said the GoB is considering proposing a four-plus-one agreement with the United States, but that it would probably be limited in scope and leave aside the more contentious issues.

COMMENT

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111. (SBU) For some who have followed Brazil's attitude toward the FTAA negotiations over the years, the current host of GoB complaints and concerns seem familiar and could be dismissed as GoB positioning rather than a signal of a critical impasse. However, the context in which the GoB, and in particular Itamaraty, are now formulating policy is dramatically different from the past. While Lula has gained support for continuation within the FTAA negotiations from some groups traditionally opposed, such as the large labor union CUT, new elements of staunch opposition to the FTAA have now taken up residence within the GoB, rather than remaining principally in vocal opposition parties and NGOs. This is particularly evident in Itamaraty, whose internal struggles over FTAA policy have been the subject of several speculative press reports recently. Post understands that for now, Ambassador Hugueney, a proponent of the FTAA, retains overall responsibility for the FTAA negotiations,

despite articles reporting otherwise. However, there is no guarantee he will remain for the long-term. Septel will expand on Mission's take concerning FTAA status within GoB and options Washington may wish to consider in that light and in the run up to USTR Zoellick's visit.

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